

MEMORANDUM OF UNDERSTANDING
BETWEEN THE
CITY OF INDIANAPOLIS
OFFICE OF MAYOR GREGORY A. BALLARD
AND THE
DEPARTMENT OF PUBLIC UTILITIES OF THE CITY OF INDIANAPOLIS,
AS TRUSTEE OF A PUBLIC CHARITABLE TRUST
D/B/A CITIZENS ENERGY GROUP
REGARDING THE PROPOSED TRANSFER
AND ACQUISITION OF WATER AND WASTEWATER SYSTEMS

This Memorandum of Understanding for Consolidation of Municipal Utilities (the "MOU") is entered into by the City of Indianapolis ("City"), Office of Mayor Gregory A. Ballard, and Citizens Energy Group to memorialize our mutual understanding, after considerable study, analysis and discussions, concerning the proposed acquisition of the City of Indianapolis' Water system (the "Water System") and Wastewater system (the "Wastewater System"; together with the Water System, collectively referred to as the "Systems") by Citizens Energy Group and/or its affiliate designee (collectively, "Citizens") subject to the terms and conditions outlined in this MOU (the "Proposed Acquisition"). This MOU is not intended to contain all of the detailed terms and conditions of the Proposed Acquisition and is not legally binding upon the parties (except as set forth in Paragraph 17). Consummation of the Proposed Acquisition is subject to certain closing conditions and the completion of business, financial, legal and similar due diligence with results satisfactory to Citizens in its sole discretion.

Preliminarily, and in an effort to provide a framework for this MOU and the Proposed Acquisition, summarized below are what the City has informed Citizens to be the City's principal objectives and the benefits of Citizens as the City's preferred partner as we work towards consummation of the Proposed Acquisition:

- The City, like many large cities today, faces massive funding challenges related to maintaining its basic infrastructure. It is estimated that the City needs over \$4 billion for necessary improvements to the City's Systems and \$1.5 billion for other basic infrastructure projects such as roads, bridges, sidewalks and parks. Included in the estimated improvements needed to the City's Systems is between \$1.4 billion and \$1.7 billion improvements mandated by the U.S. Environmental Protection Agency ("EPA") pursuant to the 2006 consent decree entered into by the City and the EPA (the "Consent Decree"). If the City does not take the action contemplated herein, to cover the costs of all of these necessary improvements, it is projected that Water rates would need to increase over 100% and Wastewater

rates would need to increase over 400% respectively by 2025 in order to cover the costs of these improvements;

- The City currently ranks as one of the most affordable major metropolitan areas in the country. The City cannot solely rely on increased tax revenues from its citizens or higher fees from ratepayers to fund the necessary infrastructure upgrades if it is to remain an affordable place to live, work, and visit;
- Facing this significant challenge of funding necessary infrastructure upgrades, the City has considered and studied various creative structures, partners and alternatives. As part of its review, the City conducted internal investigations, hired third party consultants to assist in analyzing various structures and options and issued a Request for Expression of Interest soliciting ideas from companies around the world on how to address the City's infrastructure needs while also meeting or exceeding applicable environmental standards and mitigating increases to water and wastewater rates;
- After thorough analysis of various options, structures and partners, the City believes the Proposed Acquisition of the Systems by Citizens, a public charitable trust, the trustee of which is the City's Department of Public Utilities, will provide the City with much needed capital to fund necessary infrastructure improvements, result in rate mitigation for the Systems and continue to provide the City's citizens with excellent water and wastewater services;
- It is anticipated that the combined operation by Citizens of the Central Indiana water, wastewater, gas, steam and chilled water utility systems will result in operating and capital project synergies of up to \$40 million annually for the benefit of the City, its residents and customers of both the Water and Wastewater Systems, thus resulting in lower rates for all utilities than would otherwise result in the absence of the Proposed Acquisition;
- Citizens' exemption from federal and state income taxes, its ability to assume or replace and to issue tax-exempt debt and its regulation as a municipal utility without a required return to equity investors will result in substantial long-term benefits to the City and to customers (that is, current and future Citizens' customers);
- No other group or business organization has as much experience owning, managing and operating utilities in the City of Indianapolis and in Central Indiana as Citizens;
- Citizens' unique public charitable trust structure will ensure local control over critical Central Indiana utilities continues with the same invulnerability to takeover by distant companies and investors that has protected the community's utilities entrusted to Citizens for more than 100 years. It will also ensure local reinvestment and community-based decision making;

- Selling or leasing the Water and Wastewater Systems to a private investor owned company could result in significantly higher water and sewer rates than anticipated under the Proposed Acquisition due to higher taxes, borrowing costs and the need to pay investors a higher rate of return; and
- The Proposed Acquisition contemplates an increase in the annual payment in lieu of property taxes ("PILOT") as a result of significant capital spending associated with the Wastewater System. The City will monetize the increase in PILOT payments in the form of a bond issue with anticipated proceeds of \$140 million, with such proceeds used by the City to fund necessary infrastructure improvements. The Proposed Acquisition, as further provided in this MOU, contemplates Citizens' assumption of the obligation to pay PILOTs.

With this background, the following are the principal terms and conditions of the Proposed Acquisition:

1. Acquired Assets. Citizens proposes to acquire all of the assets of the City's Systems (other than the Excluded Assets as defined below) including, without limitation: (i) all real and personal property owned, licensed or leased by the City's Department of Waterworks, or by the City, its Department of Public Works, or any of its other departments or affiliates and used, necessary or important in the operation of one or both of the Systems, except as otherwise excluded by mutual agreement of the City and Citizens, whether or not any such assets have any value for accounting purposes or are carried or reflected on the books or financial statements of the City or any of its departments or affiliates, (ii) cash and cash equivalents of the City's Department of Waterworks, or of the City, its Department of Public Works, or any of its other departments or affiliates representing the unexpended bond proceeds and other amounts in the capital improvement, bond and/or construction fund balances and reserves for the Systems (such unexpended bond proceeds and other amounts referred to herein as the "Construction Funds"), (iii) all contracts, licenses and leases related to the Systems to which the City or any of its departments, affiliates or managers is a party, except those contracts, licenses and leases excluded by mutual agreement of the City and Citizens; and (iv) any intellectual property owned or licensed by the City or any of its departments, affiliates or managers pertaining to the Systems or any portion thereof, or which is otherwise used in or necessary to the operation of the Systems in at least the same manner as they are currently operated, except those excluded by mutual agreement of the City and Citizens, (collectively, the "Acquired Assets"). All the Acquired Assets will be transferred to Citizens free and clear of all liens, claims and other encumbrances in each case except for the Assumed Liabilities and as otherwise set forth in the Definitive Acquisition Agreement (as defined below). The parties agree that the City and its inhabitants would be protected against further sale or disposition of the Systems by their placement by Citizens into public charitable trust to be held and operated in substantially the same manner as the utility systems currently held by Citizens' existing public charitable trust.

2. Excluded Assets. The Acquired Assets shall not include certain assets as mutually agreed to by the City and Citizens in writing, including but not limited to, the City's stormwater system and the cash balance of the Wastewater System's Sanitation General Fund (also known as the Sanitation Liquid Waste Fund) (the "Wastewater General Fund"), which as of February 1, 2010, had a balance of approximately \$65 million, such assets, subject to the escrow

to be included in the Cost-Sharing Arrangement (defined below), to remain the property of the City (collectively, the "Excluded Assets"). In addition, Citizens shall undertake a review of the real property and building housing the Water System's headquarters ("HQ Property") and will make a determination prior to closing of the Proposed Acquisition as to whether the HQ Property is integral, necessary or important to the operations of the Water System or to achieve the synergies sought by the Proposed Acquisition. In the event that prior to closing of the transactions contemplated by this MOU, Citizens determines that the HQ Property is not integral, necessary or important to the operations of the Water System or to achievement of synergies, the HQ Property shall be excluded from the Proposed Acquisition and shall be an Excluded Asset on such terms as the parties shall mutually agree, provided that Citizens shall be given the right to lease the HQ Property for a period of up to two years (with an option for a third year) with rental due thereon at a mutually agreed rental amount. To the extent that in the course of due diligence Citizens determines that the Wastewater System is carrying on its books real estate that was not funded with Assumed Debt Obligations (defined below) and the same would not likely be used, necessary or important to the operations of that System or to achieve the synergies sought by the Proposed Acquisition, Citizens in good faith will discuss mutually agreeable arrangements for the use of such real estate for the City's economic development objectives.

3. Acquisition Price. The consideration to be paid by Citizens to the City for the Acquired Assets (the "Acquisition Price") shall be \$262.6 million, \$170.6 million of which shall be paid in cash at closing of the Proposed Acquisition, and \$92.0 million of which shall be payable on October 1, 2011, together with the assumption of the Accepted Debt, GO Debt, Non-SRF Revenue Debt, Pending Debt and Future Debt as defined and discussed below (collectively "Assumed Debt Obligations"):

- (a) The assumption of interest-bearing and other indebtedness related to the Department of Waterworks debt and the Sanitary District debt issued to the Indiana State Revolving Fund ("SRF") amounting to \$1,349,749,250, as of February 1, 2010, as further summarized on Exhibit A (the "Accepted Debt"). This assumes receipt by Citizens of the various funds, accounts and contracts established under the indenture for such bonds (e.g., debt service reserve fund, debt service funds, construction funds, insurance policies) held by the City, or in the case of such funds, accounts and contracts held by SRF, an acknowledgement that the same are held for the benefit of Citizens in respect of the Accepted Debt;
- (b) Semiannual payments to the City in an amount equal to the interest and remaining principal obligations of the City and at such times as maybe required under the City's general obligation bonds associated with the Sanitary District ("GO Debt") with a total principal outstanding of \$53,608,000 as of February 1, 2010, are summarized on Exhibit B;
- (c) An escrow created to defease the outstanding amount of non-SRF revenue bonds of the Sanitary District ("Non-SRF Revenue Debt") in the amount of \$39,290,000, as of February 1, 2010, are summarized on Exhibit C;
- (d) Certain pending debt ("Pending Debt") that the City has informed Citizens that it anticipates obtaining to address the downgrading of the credit rating of the City's

provider of surety bonds backing Wastewater System revenue debt, which would either be in the form of a credit enhancement, or if unavailable, the issuance of bonds in the approximate amount of \$40,000,000 to fund the debt service reserves with respect to certain Accepted Debt for the Wastewater System. The City agrees to consult with Citizens with respect to the Pending Debt and the investment of any bond proceeds. Whichever solution the City implements to address the downgrade, the parties will determine in good faith an appropriate Acquisition Price reduction to reflect the increased financial costs due the downgrade; and

- (e) Certain future debt ("Future Debt") to the extent that the City anticipates the need for any other bond issues related to the Systems between the signing of this MOU and the closing of the Proposed Acquisition, which debt shall not exceed the amounts set forth in Exhibit D, without the express prior written consent of Citizens on such terms as it determines to be appropriate. To the extent any Future Debt is to be issued, the City will so notify Citizens at least 60 days in advance thereof, and the City and Citizens shall work cooperatively with respect to the terms of the issuance of such debt.

Any redemptions, refundings, or change in the amount of debt outstanding described above will reduce the Assumed Debt Obligations that Citizens will be assuming at closing.

The City has projected that given the significant capital spending associated with the Wastewater System, the annual payment in lieu of property taxes will increase in accordance with law. Accordingly, the City intends to issue debt secured by the PILOT ("PILOT Bonds") prior to the time a definitive agreement may be reached by the parties. Because certainty as to the amount of the annual PILOT is necessary for the issuance of investment grade PILOT Bonds, the City, by ordinance, intends to fix the amount of the PILOT through the year 2039 in accordance with the PILOT amounts listed on Exhibit E. Upon acquisition of the Wastewater System the Citizens entity that owns and operates this System shall assume the obligation to pay these amounts as PILOTs through the year 2039. Thereafter, Citizens shall pay annually a PILOT equal to that amount determined in accordance with IND. CODE § 36-3-2-10 or its successor.

To the extent Citizens assumes and receives assignment of certain third party agreements, the Acquisition Price shall be subject to a downward adjustment of up to \$15 million based on a mutually agreed cost-sharing, indemnity and escrow arrangement to be included in the Definitive Acquisition Agreement (the "Cost-Sharing Arrangement").

4. Assumed Liabilities. Citizens will assume only the liabilities of the City related to the Systems and the Acquired Assets (other than the Excluded Liabilities as defined below), including performance obligations under all assumed contracts and the Assumed Debt Obligations, except as otherwise agreed to between the City and Citizens and included in the Definitive Acquisition Agreement (defined in Paragraph 5 below) (collectively, the "Assumed Liabilities"). In any event, it is the intent of the parties that Assumed Liabilities will not include any liabilities or obligations with respect to any Excluded Assets or certain costs related to third party agreements that are the subject of the Cost-Sharing Agreement, other than as expressly

provided in the Cost-Sharing Arrangement (collectively, the "Excluded Liabilities"). Notwithstanding the terms of the Consent Decree indicating that a transfer or sale of Wastewater System assets will not relieve the City from its obligations under the Consent Decree and subject to the terms and conditions to be included in the Definitive Acquisition Agreement, the City's post-closing covenants set forth in the Consent Decree regarding the City's Combined Sewer Overflow project will be assumed by the Citizens entity that operates and manages the Wastewater System as part of the Proposed Acquisition consistent with and subordinate to the terms of the bond financings undertaken and assumed to complete this transaction, and accordingly Citizens will cause the Citizens entity that operates and manages the Wastewater System to so assume, and to indemnify and hold the City harmless therefrom, all as to be more particularly set forth in the mutually agreed indemnification provisions of the Definitive Acquisition Agreement. Included, by way of example only, will be the obligations related to the CSO Control Measures included in the City's Long-Term Control Plan (as approved by federal and state regulatory authorities and as may be amended or modified from time to time). The City has committed to the completion of the Septic Tank Elimination Projects listed on Exhibit F ("STEP"). Citizens acknowledges that STEP must be completed as part of the acquisition of the Wastewater System contemplated by this MOU without reduction in the Acquisition Price provided for herein; it being understood that regardless of the construction schedule in no event would Citizens be required to make payment for STEP financing or STEP improvements until 2015. The details of the STEP financing shall be addressed in the Definitive Acquisition Agreement to the mutual satisfaction of the parties following due diligence. Citizens acknowledges that the City is currently financing 2010 STEP improvements through a short term financing facility. Citizens and the City shall work together in the planning and scheduling for construction of the STEP to ensure that these projects are completed in the most efficient manner, giving due consideration to the cost of construction, financing costs, operating costs and the Wastewater System in its entirety.

5. Definitive Agreement. Consummation of the Proposed Acquisition is subject to the preparation, authorization, execution and delivery of a definitive acquisition agreement and other related documents by and between the City and Citizens (the "Definitive Acquisition Agreement") which are acceptable to both parties. Upon the acceptance of this MOU by the City, Citizens and the City will promptly undertake negotiations of the terms of the Definitive Acquisition Agreement. Citizens and its counsel shall be responsible for preparing the initial draft of the Definitive Acquisition Agreement. The Definitive Acquisition Agreement will be in a form customary for transactions of similar scope and significance to the parties and will include, in addition to those matters specifically set forth in this MOU, customary representations, warranties, indemnities, covenants, adjustments to purchase price, customary conditions of closing and other customary matters. The parties intend to proceed toward consummation of the Proposed Acquisition in good faith.

6. Conditions Precedent Related to Water System. In addition to the general conditions to closing set forth in Paragraph 8, the Proposed Acquisition will be subject to the following conditions precedent related to the Water System:

- (a) Resolution of the City's permanent rate case currently pending before the Indiana Utility Regulatory Commission ("IURC") as cause number 43645 in a manner acceptable to Citizens;

- (b) Assignment of the existing management agreement with Veolia upon terms reasonably acceptable to the City and Citizens;
- (c) Citizens' confirmation that any utility property of the Water System purchased by Citizens will be subject to Indiana's property tax laws and will not be subject to any payments in lieu of any such property taxes; and
- (d) IURC approval of Citizens' application (submitted at Citizens' expense) to include as a revenue requirement in future water rates any debt service assumed or incurred in order to complete the Proposed Acquisition, and IURC approval of Citizens' projected revenue requirements in terms of water rates at closing and terms and conditions of service reasonably acceptable to the City and Citizens. Such rates shall remain in effect for a period of at least two years after the closing of the Proposed Acquisition, subject to unforeseen circumstances and developments, unanticipated regulatory compliance costs and such other exceptions as shall be mutually agreed in the Definitive Acquisition Agreement.

7. Conditions Precedent Related to Wastewater System. In addition to the conditions to closing set forth in Paragraph 8, the Proposed Acquisition will be subject to the following conditions precedent related to the Wastewater System:

- (a) Approval by SRF of (i) Citizens' assumption or replacement/discharge of any Wastewater System interest-bearing debt issued by the City and payable to SRF with the same payment amounts and dates and redemption features as currently apply to all such applicable debt, and (ii) the transfer to Citizens or for its benefit of related funds under the indenture(s) being held by the City or SRF (e.g., debt service funds, debt service reserve funds, construction funds, policies, etc.).
- (b) Assignment of the existing management agreement with United Water upon terms reasonably acceptable to the City and Citizens;
- (c) The receipt of an Internal Revenue Service determination that the Citizens' non-profit acquisition designee is a tax-exempt instrumentality of Citizens Energy Group exempt from taxation under Section 115 of the Internal Revenue Code;
- (d) The receipt of any required EPA and Indiana Department of Environmental Management approvals, including without limitation those related to the Combined Sewer Overflow Consent Decree and any NPDES permits;
- (e) An acceptable indemnification from the City and its relevant departments in favor of the Citizens related to certain of the City's pre-closing combined sewer overflow liabilities;
- (f) Within the current City approved rate schedule, approval by the City-County Council of a mechanism acceptable to Citizens that confirms realization of billed revenues;

- (g) IURC approval of Citizens' application (prepared and submitted at Citizens' expense) (i) to have the IURC assert rate approval jurisdiction over the rates for the Wastewater System, (ii) to include as a revenue requirement in future wastewater rates, in addition to all other recoverable costs, any debt service assumed or incurred in order to complete the Proposed Acquisition and any PILOTS payable with respect to the Wastewater System assets; and (iii) to the extent necessary, the assumption of or issuance of debt in connection with the Proposed Acquisition;
- (h) IURC adoption and approval of the City's then current approved wastewater rate plan as approved by the City-County Council (including the mechanism referenced in (f) above), which rates shall increase no more than 10.75% annually through 2013, subject to unforeseen circumstances and developments, unanticipated regulatory compliance costs and such other exceptions as shall be mutually agreed in the Definitive Acquisition Agreement; and
- (i) The City has represented that there are approximately \$127 million of Construction Fund proceeds available to fund continuing Wastewater System projects identified to Citizens in the CIP Plan (defined below) upon which Citizens has relied for purposes of the Proposed Acquisition. The City shall have only expended the Construction Fund proceeds consistent with the CIP Plan, except for any expenditures for STEP in accordance with this MOU, and further shall have spent the Construction Fund proceeds, to the extent permissible with the SRF, before any Future Debt or Pending Debt is issued and the proceeds thereof expended.

8. General Conditions Precedent. In addition to the conditions precedent set forth in Paragraphs 6 and 7, the Proposed Acquisition will be subject to the following general conditions precedent to closing:

- (a) Approval of the Proposed Acquisition by the Board of Directors of Citizens followed or accompanied by any necessary or appropriate procedural and other approvals by the Citizens' Board of Trustees; provided, however, that these approvals shall be obtained in advance of the execution of the Definitive Acquisition Agreement;
- (b) Approval of the Proposed Acquisition by the Board of Waterworks, Board of Public Works, the Mayor of the City of Indianapolis, and by the City-County Council; provided, however, that these approvals shall be obtained in advance of the execution of the Definitive Acquisition Agreement;
- (c) Receipt of all material, non-governmental third party consents;
- (d) The execution by the parties of a mutually acceptable Transition Services Agreements pertaining to the Systems;
- (e) Completion of financing so that Citizens may finance this transaction and assume or replace all existing interest-bearing debt related to the Systems and

summarized on Exhibits A, B, C and D on terms reasonably acceptable to Citizens;

- (f) Approval of the Proposed Acquisition by the IURC, including but not limited to Citizens' proposed allocation of recognized operating and/or capital expenditure savings among the affected utilities;
- (g) Any other approvals necessary or advisable to consummate the Proposed Acquisition;
- (h) Confirmation to Citizens' satisfaction with respect to the balances of the Systems' working capital (including the Wastewater General Fund) and Construction Funds immediately before closing in amounts in terms of consistency with historical levels, past practice and projections provided to Citizens upon which this MOU was based;
- (i) Neither the City nor Citizens shall be subject to any injunction, preliminary restraining order or other similar decree of a court of competent jurisdiction prohibiting the consummation of the Proposed Acquisition;
- (j) Customary legal opinions, closing instruments, certificates and other documentation shall have been executed and delivered; and
- (k) Citizens shall have completed its business, financial, legal, regulatory and similar due diligence to Citizens' satisfaction by the time Citizens and the City execute the Definitive Acquisition Agreement but in no event, later than the expiration of a period of four (4) months from the execution date by the City of this MOU (the "Outside Date"), and Citizens shall have discovered no facts or conditions which constitute, or could reasonably be expected to result in, a material adverse change in the properties, assets, liabilities, operations, condition (financial or otherwise) or results of operations of the Water or Wastewater Systems.

9. Pre-Closing Covenants. Except as the parties may otherwise mutually agree or as may be otherwise contemplated by this MOU, the City shall conduct (and shall to the extent reasonably practicable and as permissible under the City's management contracts with Veolia and United Water cause its managers Veolia and United Water to conduct) the Water and Wastewater Systems only in the ordinary course of business in accordance with past practices and procedures and use (and shall to the fullest extent of its rights under the City's management contracts with Veolia and United cause its managers Veolia and United Water to use) commercially reasonable efforts to maintain the business and assets of the Water and Wastewater Systems and the City shall not (and shall to the fullest extent of its rights under the City's management contracts with Veolia and United cause its managers Veolia and United Water to not) except as otherwise contemplated by this MOU, without the prior written notice to Citizens:

- (a) dispose of or incur liabilities with respect to, pledge, mortgage, grant a security interest in or encumber any Acquired Assets;

- (b) increase the base compensation of any employee of the Systems (other than in the ordinary course of business consistent with past practices) or grant any unusual or extraordinary bonuses, benefits or other forms of direct or indirect compensation to any employee, officer, director or consultant, except in amounts consistent with past practices, by formulas or otherwise;
- (c) enter into, amend or modify any employment or severance agreement or increase, terminate, amend or otherwise modify in any material respect any plan or arrangement for the benefit of employees of the Systems;
- (d) increase any liabilities or obligations of the Systems other than in the ordinary course of business consistent with past practices and the expense projections provided to Citizens, including without limitation any capital expenditure programs;
- (e) use the Construction Funds other than in accordance with the revised capital investment plan for 2010, as provided in writing to Citizens prior to execution of this MOU and acknowledged by Citizens as the plan on which this MOU has been based (the "CIP Plan"); or
- (f) modify or amend the existing Veolia or United Water management agreements without Citizens' approval.

The City shall cooperate (and shall to the fullest extent of its rights cause its managers Veolia and United Water to cooperate) with the Citizens' due diligence procedures and shall provide the Citizens and its representatives with reasonable access to its books and records and any facilities or properties upon request during normal business hours.

10. Employment and Contract Matters. The parties have discussed the issues related to employee and union relations and have agreed to address those matters during the negotiations of the Proposed Acquisition and provide for their resolution in the Definitive Acquisition Agreement. However, it is noteworthy due to the anticipated significant capital expenditure programs, particularly those related to the sanitary sewer system and associated consent decree, significant employment growth is expected, either directly with Citizens or indirectly with Citizens' partners or contractors, including employment opportunities for minority and women-owned business enterprises. Consistent with its stated policies and initiatives, Citizens will seek to contract with Marion County based businesses and minority, women and veteran owned businesses in order to spur and maximize economic growth and job creation with local, minority, women and veteran owned businesses.

11. Public Announcements. Subject to applicable law, any public announcement relating to the Proposed Acquisition will be mutually agreed upon and jointly made by the parties.

12. Exclusivity. Subject to Paragraph 17, between the date hereof and termination in accordance with Paragraph 17, Citizens shall have the exclusive right to negotiate the Proposed Acquisition, conduct the permitted due diligence, and execute the Definitive Acquisition Agreement. Neither the City nor any of its departments shall, through any employee,

representative, agent or otherwise, directly or indirectly, (a) solicit, initiate or encourage submission of any inquiry, proposal or offer from any Person (as defined below) relating to any transaction involving any sale or transfer of any of the Acquired Assets or the Systems, (b) enter into, participate in or continue any discussions or negotiations (except with Citizens) regarding, or furnish any information to or cooperate with any Person (other than Citizens) with respect to, any transaction involving any of the Acquired Assets or the Systems, or (c) enter into any agreement (except with Citizens) relating in any manner to any transaction involving any sale or transfer of any of the Acquired Assets or the Systems. For purposes of this paragraph, the term "Person" shall mean an individual, corporation, partnership, limited liability company, sole proprietorship, joint venture, association, trust or any other entity.

13. Brokers. Each party will be responsible for any fees or expenses of any financial advisor, broker or finder retained by such party payable upon consummation of the Proposed Acquisition.

14. Transaction Expenses. Except as otherwise provided in this Paragraph 14, Citizens and the City shall be responsible for and bear all of their respective costs and expenses incurred in connection with the Proposed Acquisition, including, without limitation, any legal, accounting or other representative or advisor costs and expenses; provided, however, any party who breaches any legally binding provisions hereof shall be obligated to save harmless, indemnify and reimburse the other parties for all costs and expenses incurred by such other parties in connection with the enforcement hereof, including reasonable attorneys' fees and court costs, and in the event of a breach by the City of Paragraph 12 above, all costs and expenses incurred by Citizens in connection herewith and the negotiation and completion (or efforts to complete) the Proposed Acquisition. The City shall be responsible for all costs related to premiums and other fees and expenses for ALTA form of title policies, including routine endorsements, and one-half of the cost of surveys sufficient as a condition to remove general exceptions to any such title policies for all real property being transferred to Citizens. Citizens shall be responsible for such other endorsements as it shall determine are necessary or appropriate, and one-half of the cost of such surveys. Should the Definitive Acquisition Agreement not be executed by the City by the Outside Date through no fault of Citizens, or should a condition precedent to the Proposed Acquisition not be met through no fault of either party and Citizens is nonetheless ready, willing and able to grant an extension to the Outside Date but the City declines to do so, and thereafter the City executes a definitive agreement or agreements for the sale, transfer, or long-term lease of the Systems or completes any transaction(s) similar to the Proposed Acquisition described herein or takes definitive action to consolidate the Water and Wastewater Systems within twelve (12) months of the later of (i) the receipt by Citizens of a notice by the City to terminate this MOU in accordance with Paragraph 17 or (ii) the Outside Date; and the economic terms are more favorable to the City than those of this MOU, then the City shall purchase, or cause the acquirer(s) of the Systems to purchase, from Citizens those studies, analyses, reports and data compilations relating to the Systems prepared or obtained by Citizens, at Citizens' costs thereof, within ninety (90) days from the date the City executes a definitive agreement for the sale, transfer, or long-term lease of the Systems or any transaction similar to the Proposed Acquisition or takes definitive action to consolidate the Water and Wastewater Systems.

15. Confidentiality. Except as and to the extent required by law (including but not limited to the Indiana access to public record law at IC §5-14-3) or pursuant to an order of a court of competent jurisdiction, no party hereto shall, directly or indirectly, disclose or use (and no party shall permit its representatives to disclose or use) any Confidential Information (as defined below) with respect to any other party furnished, or to be furnished, by such other party hereto or its shareholders, directors, officers, agents, or representatives to any other party hereto or its employees, directors, officers, agents or representatives in connection herewith at any time or in any manner other than in connection with the completion of the Proposed Acquisition and related transactions. For purposes of this paragraph, the term "Confidential Information" means any information about the Citizens, the City or the Systems related to the Proposed Acquisition; provided, however, that such term does not include information which the receiving party can demonstrate (a) is generally available to or known by the public other than as a result of improper disclosure by the receiving party, (b) is obtained by the receiving party from a source other than the disclosing party, provided that such source was not bound by a duty of confidentiality to the disclosing party with respect to such information, or (c) is legally in the public domain.

16. Governing Law. This MOU will be governed by Indiana law, without regard to principles of conflicts of law.

17. Binding Effect; Termination. The parties intend to negotiate the terms and conditions of the Definitive Acquisition Agreement until this MOU is terminated in accordance with this paragraph. Except for numbered Paragraphs 11, 12, 13, 14, 15, 16, this 17, 18, 19 and 20, which are intended to be binding, the parties agree that this MOU is not intended to be a binding agreement between the parties but merely an expression of their intent with regard to the transactions described herein, and each party covenants never to contend to the contrary. If a Definitive Acquisition Agreement with respect to the Proposed Acquisition is not signed on or before the Outside Date, either party, upon written notice to the other, may terminate this MOU and (except with respect to Paragraphs 11, 13, 14, 15, 16, this 17, 18, 19 and 20) the parties shall no longer have any rights or obligations with respect to this MOU.

18. Notices. All notices and other communications hereunder shall be in writing and shall be furnished by hand delivery of registered or certified mail to the parties at the addresses set forth below. Any such notice shall be duly given upon the date it is delivered to the addresses shown below, addressed as follows:

If to Citizens, to:

Citizens Energy Group
2020 N. Meridian Street
Indianapolis, IN 46202

Attention: Carey Lykins, President and Chief Executive Officer

If to the City, to:

City of Indianapolis.

Office of the Mayor
2501 City-County Building
200 East Washington Street

Attention: Michael Huber, Director of Enterprise Development

19. Severability. If any term, provision, covenant or restriction contained in this MOU that is intended to be binding and enforceable is held by a court of competent jurisdiction to be invalid, void or unenforceable, the remainder of the terms, provisions, covenants and restrictions contained in this MOU shall remain in full force and effect and shall in no way be affected, impaired or invalidated.

20. Entire Agreement. This MOU represents the entire agreement among the parties hereto with respect to the subject matter hereof and it supersedes all prior or contemporaneous written or oral agreements or understandings of any kind among the parties hereto with respect to the subject matter hereof.

[Remainder of Page Intentionally Blank]

IN WITNESS WHEREOF, the parties have hereunto affixed their signatures on the dates indicated below:

CITY OF INDIANAPOLIS

By: Greg A. Ballard

Date: 3-9-10

Gregory A. Ballard, Mayor

DEPARTMENT OF PUBLIC UTILITIES OF THE CITY
OF INDIANAPOLIS, AS TRUSTEE OF A PUBLIC CHARITABLE
TRUST, D/B/A CITIZENS ENERGY GROUP

By: Carey Lykins

Date: 3-9-10

Carey Lykins, President and Chief Executive Officer

APPROVED AS TO FORM AND LEGALITY:

By: Samatha S. Karn

Date: 3/9/10
v

Samatha Karn, Corporation Counsel, City of Indianapolis

Exhibit A

Accepted Debt (as of 2/1/10)

Outstanding Debt of the Department of Waterworks

Name of Bonds	Original Par	Outstanding Par
Net Revenue Bonds 2002A	\$575,955,000	\$28,860,000
Net Revenue Refunding 2005F	\$70,255,000	\$70,065,000
Net Revenue Refunding 2006A	\$77,830,000	\$77,830,000
Net Revenue Refunding 2007B	\$70,410,000	\$70,410,000
Net Revenue Bonds 2007L	\$106,000,000	\$104,710,000
Net Revenue Bonds 2009A	\$563,780,000	\$563,780,000
	Total Outstanding DOW Debt	\$915,655,000

Outstanding SRF Debt of the Department of Sanitary District

Name of Bonds	Original Par	Outstanding Par
Series 1998E	\$23,000,000	\$12,765,000
Series 2000B	\$32,000,000	\$20,268,000
Series 2001E	\$42,420,000	\$31,170,000
Series 2002D	\$41,000,000	\$31,867,000
Series 2004G	\$8,600,000	\$6,620,000
Series 2004H	\$25,000,000	\$20,814,000
Series 2004J	\$70,000,000	\$59,740,000
Series 2005I	\$90,000,000	\$79,555,000
Series 2006E	\$35,250,000	\$32,610,000
Series 2006I	\$34,750,000	\$33,195,000
Series 2007F	\$80,557,000	\$73,440,250
Series 2009E	\$32,050,000	\$32,050,000
	Total Outstanding Sanitary District SRF Debt	\$434,094,250

Total Assumed Debt \$1,349,749,250

Exhibit B

General Obligation Debt Summary (as of 2/1/10)

Name of Bonds	Outstanding Par
GO Bond Series 1993A	\$13,220,000
GO Bond Series 2003A	\$8,695,000
GO Bond Series 2007C	\$28,570,000
GO Bond Series 2007D	\$703,000
GO Bond Series 2009A	\$2,420,000
Total Outstanding	\$53,608,000

Exhibit C

Non-SRF Revenue Debt (as of 2/1/10)

Name of Bonds	Outstanding Par
ILPIBB Revenue bond Series 2007A	\$32,060,000
ILPIBB Revenue Bond Series 2000B (reissued)	\$7,230,000
Total Outstanding	\$39,290,000

Exhibit D

Future Debt

Sixty Million Dollars or such other amount as the parties shall mutually agree is required based on due diligence

Exhibit E

Annual PILOT Payments

Year	Amount
2010	\$11,519,787
2011	\$13,038,566
2012	\$14,264,201
2013	\$14,874,669
2014	\$12,770,735
2015	\$17,168,014
2016	\$17,168,014
2017	\$19,520,181
2018	\$22,729,332
2019	\$25,647,129
2020	\$27,908,296
2021	\$28,739,159
2022	\$29,152,282
2023	\$29,444,917
2024	\$27,788,097
2025	\$26,095,838
2026	\$24,362,479
2027	\$22,851,006
2028	\$23,154,132
2029	\$23,485,461
2030	\$23,842,921
2031	\$24,221,728
2032	\$24,618,285
2033	\$25,031,974
2034	\$25,457,202
2035	\$25,889,899
2036	\$26,330,027
2037	\$26,777,638
2038	\$27,232,858
2039	\$27,695,816

Exhibit F
STEP Projects

Project Number	Project Name
BL-27-042	Franklin/Rawles Barrett Law Sanitary Sewer (PER-2)
BL-33-053	Southeastern Corridor Phase 2 – Design (PER 5A)
BL-46-083B	Forest Park/Southport STEP (PER 3C)
BL-46-004	Homecroft Phase I – Design
BL-46-007	Homecroft Phase II – Design
BL-41-003A	Franklin/Southeastern STEP (PER – 4B)
BL-28-027A	10 th /Mitthoefer STEP Sanitary Sewer (PER 5A)
BL-46-083A	Bangor/Delaware STEP (PER-03C)
BL-46-083D	Meridian/Stop 11 STEP (PER 3C)
BL-10-069D	Fox Hill/Hoover STEP (PER 5B)
BL-17-005	Northern Estates STEP
BL-33-053C	Southeastern/Troy (Glenroy Village) STEP (PER-05A)
BL-32-001	Brill/Troy STEP (PER 5B)
BL-41-003F	Ferguson & Post STEP (PER-4B)
BL-10-069A	59 th /Grandview STEP (PER 5B)
BL-10-069E	Sunset/Kessler STEP (PER 5B)
BL-46-004A	Cragmont/Brill STEP (PER-5B)
BL-46-004B	Edgewood/Shelby STEP (PER-5B)
BL-10-069B	63 rd /Spring Mill STEP (PER 5B)
BL-10-069C	64 th /Whitley STEP (PER 5B)
BL-28-001	16 th & Whitty STEP
BL-46-007A	Banta/McFarland Barrett Law Sanitary Sewers (PER 5B)
BL-46-007B	Brookdale/Fairhope Barrett Law Sanitary Sewer Projects (PER 5B)

BL-41-003D	Five Points/Southeastern STEP (PER-4B)
BL-10-055	57th & Cooper STEP – Design
BL-10-055	57th & Cooper STEP – Construction
BL-38-001B	Camden/Thompson STEP
BL-17-001	46th/Michigan Barrett Law Sanitary Sewers
BL-17-002	38th & Kessler STEP
BL-38-001J	Thompson Road STEP (with InDOT project)
BL-41-003B	Thompson/Southeastern STEP (PER-4B)
BL-04-001	86th/Washington, North STEP Sanitary Sewer Project
BL-10-025	62nd/Michigan Barrett Law Sanitary Sewers
BL-33-053A	Southeastern/Raymond STEP (PER-05A)
BL-33-053E	Iona & Hunter STEP
BL-32-003	South Keystone Area Barrett Law Sanitary Sewers
BL-04-002	82nd/Meridian STEP Sanitary Sewer Projects